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INFO OCT-01 ISO-00 /004 R

666011

DRAFTED BY: ARA/PAN:JPBECKER

APPROVED BY: ARA/PAN:ENADEAU

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R 170425Z JAN 76

FM SECSTATE WASHDC

TO SECRETARY PANAMA CANAL CO. WASH. DC

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FOLLOWING PANAMA 0245 SENT ACTION SECSTATE INFO PANCAL
USCINCSO JAN 14; REPEATED TO YOU QUOTE

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E.O. 11652: N/A

TAGS: PFOR, ECON, PN

SUBJECT: LOCAL IMPACT OF POSSIBLE PANCANAL FORCE REDUCTIONS

REF: PANAMA 7290

SUMMARY: POSSIBLE REDUCTIONS IN PANCANAL WORK FORCE
CONTINUE TO DRAW ADVERSE LOCAL COMMENT. AT TIME OF
ECONOMIC DIFFICULTY, ISSUE HAS POTENTIAL OF BECOMING
CONSIDERABLE PUBLIC RELATIONS PROBLEM FOR UNITED
STATES. END SUMMARY.

1. DECLINE IN CANAL TRAFFIC, CANAL COMPANY FINANCIAL
PROBLEMS, AND CONSEQUENT POSSIBILITY OF SEEKING
OPERATIONAL ECONOMIES THROUGH REDUCTIONS IN WORK
FORCE HAVE BEEN REPORTED IN LOCAL PRESS AT INTERVALS
OVER PAST FEW MONTHS. THESE REPORTS HAVE MET WITH CON-
SISTENTLY ADVERSE COMMENTS FROM EDITORIALS AND
COLUMNISTS; LEAD EDITORIAL OF PRO-GOP "DOMINICAL"
JANUARY 4, FOR EXAMPLE, EQUATED PANCANAL ECONOMY MEASURES
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TO CASE OF FAMILY FACING FINANCIAL STRINGENCY BUT UNWILLING

TO DO WITHOUT LUXURY TO ECONOMIZE.

2. UNIONS REPRESENTING PANAMANIAN EMPLOYEES OF CANAL COMPANY ARE NOT AFFILIATED UNDER LOCAL LAW WITH DOMESTIC LABOR MOVEMENT. HOWEVER, OFFICIALS OF BOTH AMERICAN FEDERATION OF STATE, COUNTY AND MUNICIPAL EMPLOYEES AND NATIONAL MARITIME UNION HAVE ISSUED PUBLIC STATEMENTS TO LOCAL PRESS CONDEMNING REDUCTIONS IN PANAMANIAN LABOR FORCE FOR ECONOMY REASONS AND VOWING TO FIGHT SUCH REDUCTIONS.

3. SITUATION IS COMPLICATED BY CASE OF FRANKLIN CASTRELLON, A PANAMANIAN EMPLOYEE OF CANAL COMPANY INFORMATION OFFICE WHO WAS INFORMED IN DECEMBER THAT HE (ALONG WITH THREE U.S. EMPLOYEES IN SAME OFFICE) WOULD BE SUBJECT TO RIF FOR ECONOMY REASONS. PANCANAL HAS POINTED OUT THAT CASTRELLON WAS AMONG LEAST SENIOR EMPLOYEES IN OFFICE. CASTRELLON HAS PUBLICLY CHARGED THAT HIS DISMISSAL IS FINAL ACT IN A CAMPAIGN OF HARRASSMENT BEGUN BY HIS SUPERIORS WHEN HE SIGNED A PETITION BY LOCAL JOURNALISTS' UNION FAVORING GOP POSITION IN TREATY NEGOTIATIONS (PUBLISHED ARTICLES HAVE REFERRED TO AN "OUTSTANDING" PERFORMANCE RATING WHICH HE RECEIVED PRIOR TO SIGNING THIS PETITION). THIS UNION HAS MADE HIS CASE A CAUSE CELEBRE (CASTRELLON IS AN OFFICER OF THE UNION) AND IT HAS SINCE RECEIVED FREQUENT PRESS COVERAGE, ALL HIGHLY ADVERSE TO PANCANAL. UNION PRESIDENT (IN PRO-GOP "MATUTINO" JANUARY 5) USED CASTRELLON CASE AS STARTING POINT FOR DISPARAGING EXAMINATION OF PANCANL ADMINISTRATIVE PRACTICES, WHICH HE CONCLUDED, WERE THE SOURCE OF MOST OF COMPANY'S FINANCIAL DIFFICULTIES. LEAD EDITORIAL OF PRO-GOP "CRITICA" JANUARY 6, CITING THIS ARTICLE, STATED "THERE IS NO DOUBT THAT THE 'ALLEGED ECONOMIC CRISIS' OF THE CANAL TURNS OUT TO BE A MIRAGE".

4. A NUMBER OF PANAMANIAN, IN PRIVATE CONVERSATIONS, HAVE ALSO OBJECTED TO AND/OR EXPRESSED CONCERNS LIMITED OFFICIAL USE

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ABOUT, POSSIBLE PANCANAL REDUCTIONS IN FORCE. THE REASONS GIVEN FOR THIS VIRTUALLY UNANIMOUS LOCAL REJECTIONS OF RIFS BOIL DOWN TO SOME COMBINATION OF THE FOLLOWING ASSERTIONS:

A. DISBELIEF THAT FINANCIAL PROBLEM EXISTS, OR, IF IT DOES, THAT IT IS GREAT ENOUGH TO WARRANT A PERCEPTIBLE REDUCTION IN FORCE.

B. PROBLEM IS ARTIFICIAL (I.E., DUE TO BOOKKEEPING PRACTICES), OR IS UNWARRANTABLE DUE TO CHARGING AGAINST CANAL REVENUES COSTS OF EXCESSIVE PRIVILEGES ENJOYED ONLY BY AMERICANS, AND/OR "CONCEALED SUBSIDIES" TO OTHER U.S. GOVERNMENT (I.E., MILITARY) AGENCIES.

C. DECISION TO CUT COSTS, RATHER THAN RAISING TOLLS, IS U.S. ACTION, ADVERSE TO PANAMA, TO FAVOR U.S. USERS OF CANAL.

D. REDUCTIONS IN FORCE WILL FALL PREDOMINANTLY ON LOWER-PAID PANAMANIAN EMPLOYEES DUE EITHER TO OUTRIGHT ANTI-PANAMANIAN PREJUDICE, OR TO DESIRE OF AMERICAN ESTABLISHMENT TO PROTECT ITS (HIGHER-PAID) MEMBERS AND THEIR PRIVILEGES; AMERICAN EMPLOYEES OUGHT TO BEAR AT LEAST EQUAL SHARE OF BURDEN OF ECONOMIES, AND THIS IS NOW SAID NOT TO BE THE CASE.

5. COMMENT: PANCANAL'S ECONOMIC PROBLEMS AND DECLINE IN TRAFFIC COME AT A TIME OF A LOCAL ECONOMIC SLOWDOWN. INCREASING GENERAL CONCERN ABOUT THE ECONOMY, AND PARTICULARLY ABOUT UNEMPLOYMENT--WHICH WOULD ONLY BE AGGRAVATED IF PANCANAL WERE TO CARRY THROUGH WITH SUBSTANTIAL RIFS--UNDERLAYS MANY OF THE COMMENTS MADE LOCALLY. IN ADDITION, ANY SUCH ACTION BY PANCANAL WOULD RUN DIRECTLY COUNTER TO INCREASING GOVERNMENT EFFORTS TO DO SOMETHING POSITIVE ABOUT THE ECONOMY. THE CASTRELLON CASE HAS SEVERAL BAD SIDE EFFECTS IN THIS REGARD. THE LOCAL JOURNALISTS' UNION DOES NOT APPEAR READY TO LET THE ISSUE DIE AND IT IS VERY LIKELY THAT PUBLIC LIMITED OFFICIAL USE

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TREATMENT BY LOCAL JOURNALISTS OF OTHER DISMISSALS OF PANAMANIANS WILL BE UNFAVORABLE TO COMPANY. TREATMENT OF CASE HAS ALSO CREATED PREDISPOSITION TO CONSIDER RIFS IN "NATIONALISTIC" TERMS WHICH OBSCURE DISCUSSION OF THE REAL REQUIREMENT FOR SOME MEASURES TO DEAL WITH FINANCIAL PROBLEM. AT BOTTOM, HOWEVER, CASE MADE BY RESPONSIBLE PANAMANIANS AGAINST RIF ACTIONS DOES NOT APPEAR HYPOCRITICALLY FOUNDED ON EITHER EXPLOITATION OF CASTRELLON CASE OR ON CONCERN AT ECONOMIC ILL-EFFECTS (ALTHOUGH THE LATTER IS AN IMPORTANT COROLLARY FACTOR). RATHER, WE OBSERVE AN HONEST LACK OF UNDERSTANDING OF PANCAN'S FINANCIAL REALITIES, AND A SINCERE PERCEPTION THAT THE PANAMANIAN BASE OF THE LABOR FORCE WILL BEAR A SHARE OF THE "ECONOMY" BURDEN

DISPROPORTIONATE TO THAT BORNE BY THE AMERICAN
TOP. THIS IS AGGRAVATED BY GENERAL UNCERTAINTY AS TO
WHETHER MORE RIFS WILL COME, AND HOW
GREAT THEY MAY BE. IT IS POSSIBLE THAT AN EXPANDED
EFFORT BY THE CANAL COMPANY TO ACQUAINT INFLUENTIAL
PANAMANIAN DECISION-MAKERS WITH THE REALITIES OF THE
COMPANY'S FINANCIAL TROUBLES, ACCOMPANIED BY TIMELY
ADVANCE CONSULTATION ON ANY PLANS FOR RIFS OF
PANAMANIAN EMPLOYEES WITH CONCERNED GOP OFFICIALS,
WOULD AMELIORATE THAT PART OF THE PROBLEM WHICH
ARISES OUT OF HONEST MISAPPREHENSION ABOUT THE
CANAL'S FINANCIAL SITUATION. NEVERTHELESS, IF
FURTHER RIF ACTIONS BEYOND THOSE ALREADY ANNOUNCED ARE NECESSARY,
OUR ASSESSMENT IS THAT THIS WOULD HAVE THE POTENTIAL
OF BECOMING A CONSIDERABLE PUBLIC RELATIONS PROBLEM
FOR THE UNITED STATES IN THE REPUBLIC. END COMMENG
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PRESS COMMENTS, PUBLIC ATTITUDES, PERSONNEL SEPARATIONS, CANALS
Control Number: n/a
Copy: SINGLE
Draft Date: 17 JAN 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: MartinML
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976STATE011954
Document Source: CORE
Document Unique ID: 00
Drafter: ARA/PAN:JPBECKER
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760019-0341
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760147/aaaabpgn.tel
Line Count: 186
Locator: TEXT ON-LINE, ON MICROFILM
Office: ORIGIN ARA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 76 PANAMA 7290
Review Action: RELEASED, APPROVED
Review Authority: MartinML
Review Comment: n/a
Review Content Flags:
Review Date: 21 JUL 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <21 JUL 2004 by MartinML>; APPROVED <03 NOV 2004 by MartinML>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: LOCAL IMPACT OF POSSIBLE PANCANAL FORCE REDUCTIONS
TAGS: PFOR, ECON, EWWT, PN
To: SECRETARY PANAMA CANAL CO WASH DC
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006